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11 March 2026

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Chair
Australian Accounting Standards Board
PO Box 204, Collins Street West, Victoria 8007

Via online submission: www.aasb.gov.au

Dear Kieth

Exposure Draft - Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities and Operating Cash Flow Reconciliation for entities preparing Tier 1 general purpose financial statements (ED 338)

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of more than 175,000 members working in over 100 jurisdictions and regions around the world, working in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally. We provide the following feedback on the above Exposure Draft (ED 338) on behalf of our members and in the public interest.

Key recommendations

CPA Australia's support for the proposals in ED 338 is grounded in extensive stakeholder outreach and is subject to the following key considerations:

- Additional implementation guidance and illustrative examples are critical, particularly for not-for-profit (NFP) private sector entities, universities and for-profit public sector entities, to mitigate judgement-driven inconsistency and counterintuitive presentation outcomes.
- A post-implementation review should explicitly assess the cost-benefit balance and comparability impacts of applying AASB 18 to NFP private sector entities and for-profit public sector entities, including consolidation effects.
- The Australian Accounting Standards Board (AASB) should clarify the conceptual basis, scope and operability of the Management-defined Performance Measures (MPMs) requirements and reliefs across sectors to support consistent, principles-based application.

CPA Australia's overall position on the various proposals in ED 338 that arise from the new Australian Accounting Standard (AAS) AASB 18 *Presentation and Disclosure in Financial Statements* (AASB 18) and consequential amendments to other AAS including AASB 107 *Statement of Cash Flows* (AASB 107), are provided in the table below, with further information our position provided thereafter and in the **Attachment** to this letter:

Entity type	CPA Australia position on proposals
Superannuation entities	Support
Not-for-profit public sector entities	Support
Not-for-profit private sector entities and universities	Conditional support
For-profit public sector entities	Conditional support

Superannuation entities

Based on outreach we undertook with superannuation entities and other stakeholders, we support the proposals as they relate to superannuation entities. We agree that retaining the presentation requirements of AASB 1056 *Superannuation Entities* (AASB 1056) is appropriate and reflects the sector's unique characteristics.

We also support the proposal to not modify the disclosure requirements relating to Management-defined Performance Measures (MPMs), noting superannuation entities do not typically disclose information that would meet the definition of MPMs. However, the proposal appears to be based on the existence, or lack thereof, of MPMs in superannuation entity financial statements, rather than focusing on the user needs of such information. We suggest clarifying the conceptual basis for the proposed approach to Management Performance Measures (MPMs) to ensure alignment with user needs.

Not-for-profit (NFP) public sector entities

Our outreach indicates support for the proposed approach that provides a policy choice for NFP public sector entities. Stakeholders indicated that for Whole of Government and the General Government Sector, maintaining budgetary reporting and Government Financial Statistics (GFS) aligned reporting formats based on AASB 1049 *Whole of Government and General Government Sector* (AASB 1049) is critical for governance, fiscal oversight and public accountability, and that mandated presentation of income, expenses and cashflows based on AASB 18 could reduce clarity and distort perceptions of operating performance.

AASB 1049 presentation requirements and reconciliation requirements to key fiscal aggregates are well understood by preparers and embedded in budget processes and fiscal reporting. Respondents agreed that governments should continue presenting all applicable AASB 1049 line items and subtotals (rather than applying the AASB 18 "structured summary" judgement-based approach). Support was also expressed for the proposed technical updates to AASB 1049 to maintain consistency with current standards and terminology.

For other NFP public sector entities, for similar reasons as noted above, existing presentation approaches required in templates provided by Treasury departments and Departments of local government are more appropriate than the presentation requirements of AASB 18.

Respondents also supported the proposed policy choice for disclosure of MPMs as a practical approach.

Whilst some stakeholders noted that the accounting policy choice for AASB 18 presentation requirements and disclosures of MPMs could lead to inconsistent reporting practices across jurisdictions, others noted that this is already the case and that there was no need for comparability across different jurisdictions across Australia.

NFP private sector entities and universities

We received mixed feedback regarding the proposals, from stakeholders representing NFP private sector entities. On balance, CPA Australia supports applying AASB 18 to Tier 1 NFP private sector entities, recognising the potential transparency benefits, and subject to the availability of clear implementation guidance and a commitment to reassess outcomes through a post-implementation review.

Those in support of applying AASB 18 requirements to NFP private sector entities noted that there is benefit in applying the presentation requirements. In particular, the split between 'operating' and 'investing' activities in the income statement was considered beneficial.

Some concern was raised about the additional cost of applying the AASB 18 requirements by Tier 1 (and Tier 2) NFP private sector entities, particularly around the judgement needed in applying the presentation requirements, sector comparability and potential presentation mismatches (e.g., interdependent research, restricted funds and investment-funded models). Stakeholders emphasised the need for clear implementation guidance and illustrative examples.

For-profit public sector entities

We received mixed feedback regarding the proposals, from stakeholders representing for profit (FP) public sector entities. On balance, we support the proposals to apply the requirements of AASB 18 to FP public sector entities.

Feedback was diverse and highlighted tensions between market-based comparability and public sector consolidation needs. Some stakeholders preferred alignment with for-profit private sector entities which operate commercially, while others prioritised consistency with the broader public sector framework given whole-of-government consolidation and heightened public scrutiny. Respondents also noted that differing cash flow classifications between entity-level reporting and whole-of-government reporting could create recurring consolidation adjustments, potentially outweighing the incremental benefits of strict compliance with the revised AASB 107 in this context.

In providing our overall support for the proposals in ED 338, we make the following suggestions:

1. Clarify the conceptual basis and operability of the proposed MPMs approach across sectors, including how the requirements apply or are relieved for superannuation entities, NFP public sector entities and governments, and how MPMs definitions and disclosures should be applied consistently for Tier 1 private sectors NFPs and universities
2. Provide additional implementation guidance and illustrative examples to all sectors consulted in ED 338 to support consistent application and avoid counterintuitive presentation outcomes
3. Critically assess in a future post-implementation review the:
    a. Costs/benefits of applying the AASB 18 requirements by NFP private sector entities
    b. Comparability versus consolidation trade-offs for FP public sector entities, including the recurring cost of consolidation adjustments where presentation approaches differ, and whether a differentiated approach is warranted based on operating context.

In addition to our comments in this submission which relate to Tier 1 entities that are within the scope of ED 338, we would also like to highlight that the comments we make in this submission in respect of NFP public sector entities and NFP private sector entities are also relevant to the Tier 2 entities for these two sectors.

Further detail on our above comments, including our responses to questions in ED 338 are included in the **Attachment**. If you require further information, please contact me at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

Ram Subramanian FCPA
Financial Reporting Lead
CPA Australia

ATTACHMENT – CPA AUSTRALIA'S RESPONSES TO QUESTIONS

Operating cash flow reconciliation

1. In respect to entities preparing Tier 1 GPFS, other than superannuation entities and NFP public sector entities, do you agree with the proposed paragraph 16(a) in AASB 1054 that an entity should provide a reconciliation of the net cash flow from operating activities to the operating profit or loss subtotal in the statement of profit or loss, if the entity presents that subtotal in accordance with AASB 18.69(a)? Please explain your reasons.
2. Do you agree with the proposed amendments to AASB 1039.21? Please explain your reasons.

We agree with the proposals.

Superannuation entities

3. Do you agree with the proposed paragraph Aus23.1(a) and AusB8.1(a) in AASB 18 that a superannuation entity should not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary; and therefore, would be required to present all applicable line items in the income statement and in the statement of changes in member benefits as required by AASB 1056.9 and AASB 1056.11? Please explain your reasons.
4. Do you agree with the proposed paragraph Aus46.1(a) in AASB 18 and paragraphs 10A and 22A in AASB 1056? Please explain your reasons.
5. Do you agree with the proposed paragraph Aus78.1(a) in AASB 18? Please explain your reasons.
6. Do you agree with the proposed paragraphs Aus6.1 and Aus34D.1 in AASB 107 in respect to superannuation entities? Please explain your reasons.
7. Do you agree with the proposed paragraph Aus20.2 in AASB 107 and paragraph 16(b) in AASB 1054 in respect to superannuation entities? Please explain your reasons.
8. Do you agree with the proposed paragraph 12A in AASB 1056? Please explain your reasons.
9. Do you agree that no modifications are needed for superannuation entities with respect to aggregation and disaggregation requirements set out in AASB 18? Please explain your reasons. If you consider modifications are needed, please describe the changes and explain why they are necessary.
10. Do you agree that no modifications are needed for superannuation entities with respect to the MPM disclosure requirements? Please explain your reasons. If you consider modifications are needed, please describe the changes and explain why they are necessary.
11. Do you agree that superannuation entities should be required to apply AASB 18 and the modifications proposed to be made in the Exposure Draft for periods beginning on or after 1 January 2028? If not, which date do you consider that superannuation entities should be required to apply AASB 18? Please explain your reasons.

We undertook targeted outreach with our members and other stakeholders, including professionals providing assurance and advisory services to superannuation entities. The feedback received was broadly supportive of the proposals in relation to superannuation entities.

Consistent with feedback received by the AASB during targeted consultation it undertook, respondents support the proposal for superannuation entities to continue using the presentation formats in AASB 1056 for the statement of profit or loss and statement of cash flows. Stakeholders indicated that the existing framework appropriately reflects

the unique nature of superannuation entities, including the prominence of member benefits and the centrality of the member benefits statement, while preserving industry-specific line items (such as member contributions, benefit payments and insurance components) that users, trustees and regulators (including ASIC and APRA) are familiar with.

At the same time, we support proposals to incorporate some of the requirements of AASB 18, including subtotals and aggregation/disaggregation, where relevant. Accordingly, we agree that no further modifications beyond those proposed in ED 338 are necessary for superannuation entities.

Respondents were also supportive of the proposed relief from certain AASB 18 and AASB 107 requirements for Tier 1 general purpose financial statements (GPFS). The superannuation sector already provides comprehensive governance and remuneration disclosures, and performance outcomes are directly reflected in member returns and trustee reporting frameworks. As superannuation entities generally do not have executive directors in the same way as listed corporates, and operate within a highly regulated environment, stakeholders did not identify any substantive information gaps arising from the proposed exemptions.

In relation to Question 3 specifically (relating to management-defined performance measures (MPMs), feedback indicated that superannuation entities generally do not present MPMs within the scope contemplated by AASB 18. On that basis, stakeholders were generally comfortable with the proposed approach.

However, we note that the rationale that "superannuation entities generally do not have MPMs" may not, in itself, constitute a strong conceptual or principles-based rationale for exempting the sector from MPM-related requirements. If, in future, a superannuation entity were to present measures that meet the definition of an MPM, it would be important that the standard provides clarity on whether and how the MPM disclosure requirements would apply in those circumstances.

Accordingly, while we support the proposal regarding MPMs in ED 338, we suggest the AASB clarify the conceptual basis for the exemption or confirm how MPM requirements would apply if such measures were presented in practice. This would enhance consistency with the principles-based framework of AASB 18.

NFP private sector entities and universities

NFP-specific guidance

12. In respect to NFP private sector entities and universities preparing Tier 1 GPFS, do you agree with the proposed paragraphs Aus9.1 and AusB5.1 in AASB 18 to require these entities to consider the common information needs of users of GPFS of NFP entities described in the Conceptual Framework for Financial Reporting? Please explain your reasons.

We generally support the proposed amendments to clarify that users of GPFS of NFP private sector entities have information needs that extend beyond assessing financial returns, consistent with the Conceptual Framework.

Feedback from both the NFP private sector and universities indicates that the drafting requires careful refinement to avoid unintended interpretation. For instance, under the proposed paragraph Aus9.1, wording such as "rather" may imply a hierarchy between achievement of objectives and assessment of future net cash inflows, which does not reflect how users evaluate NFP private sector entities and universities in practice. For many entities (particularly large, capital-intensive institutions such as universities) financial sustainability, liquidity and stewardship remain central to decision-making by governing bodies, regulators and other stakeholders.

We therefore recommend that the AASB ensures the final wording clearly presents mission achievement and financial resilience as complementary considerations, preserves sector-neutral principles, and avoids creating uncertainty regarding disclosure scope or perceived de-emphasis of financial performance.

13. Do you agree with the proposed paragraph AusB80.1 in AASB 18 that NFP private sector entities and universities preparing Tier 1 GPFS should consider what line items provide the most useful information to users of financial statements about the entity's "operations or main activities", which is broader than considering "the main components or drivers of the entity's profitability" required by AASB 18.B80? Please explain your reasons.

We generally agree with the proposed paragraph AusB80.1 in AASB 18 which is conceptually more consistent with mission-driven objectives.

However, feedback from outreach, particularly from universities, highlighted significant operational concerns about how "operations or main activities" should be interpreted and applied in practice. Respondents noted that many NFP private sector entities and universities business models involve interdependent activities (for example, investment/endowment income funding grant-making or service delivery), and a mechanical application could create artificial mismatches (e.g., investment/interest income presented outside operating while related operating expenses remain within operating), potentially obscuring sustainable performance.

Stakeholders representing universities also noted that determining whether investment income, financing activities, or interest earned on restricted research grants forms part of "main activities" involves substantial judgement, creating risk of inconsistent presentation outcomes across institutions and reduced sector comparability, an issue given benchmarking and policy scrutiny by regulators and funding bodies.

While we support the proposal, we encourage the AASB to provide additional clarifying guidance and illustrative examples (including common university scenarios such as restricted grants and endowment-funded operations) to promote consistent, auditable application and preserve comparability within sectors.

14. Other than the proposals in Q12–Q13, the AASB did not identify any necessary modifications from AASB 18 or the revised AASB 107 for NFP private sector entities or universities preparing Tier 1 GPFS. Do you have any comments on the suitability of applying AASB 18 or the revised AASB 107 to these entities? If you consider further modifications are needed, please explain your reasons.

We received mixed feedback on the suitability of applying AASB 18 and the revised AASB 107 to Tier 1 NFP private sector entities and universities. Stakeholders generally did not reject applying AASB 18 and the revised AASB 107 to Tier 1 private NFPs and universities. Many considered the framework appropriate for larger, more complex entities where investing and financing activities are material and where users would benefit from more structured presentation and clearer linkages between performance and cash flows.

Transparency and comparability benefits

A recurring theme was that AASB 18 could improve transparency and comparability for NFP private sector entities, particularly where revenue streams are diverse and material. Respondents noted that some charities and other NFP private sector entities do not clearly distinguish funding income (e.g., grants/donations) from investment income, sometimes mixing these streams in ways that obscure performance drivers and financial resilience indicators. Requiring clearer disaggregation and structured presentation was viewed as beneficial for users assessing funding reliance, sustainability and stewardship, especially in sectors where NFPs operate alongside for-profit providers or within group structures.

Operational complexity and distortions

At the same time, respondents cautioned that structured categorisation may not always reflect the economic substance of mission-driven models and could create presentation mismatches. Examples included entities where investment income funds grant-making or service delivery, and arrangements involving restricted funding where

related income and expenses may be presented in different categories, potentially producing counterintuitive results that confuse users rather than inform them.

Universities sector consistency risks
Universities were broadly viewed as capable of applying AASB 18, but feedback emphasised the need to preserve comparability across the sector. As explained in our response to Question 13 above, feedback noted that determining "operations or main activities" can involve substantial judgement and may lead to divergence between institutions, given the interdependence of teaching, research, commercialisation, endowment management and investment activities. Respondents suggested clearer guidance and examples, potentially aligned with Department of Education expectations, to support consistent outcomes.

MPM auditability and burden
Views were mixed on applying the full MPM requirements to NFP private sector entities and universities. Some respondents supported transparency, but others raised concerns about compliance burden and auditability, including disputes over definitions, adjustments and completeness, particularly where performance information is already extensively communicated outside GPFS. Respondents indicated that additional guidance on consistent definitions and practical application would help mitigate audit friction and comparability issues.

Overall, respondents seek clear need to balance improved transparency against practical complexity and sector comparability. In particular, the data of revenue sources of charities (illustrated by the latest Australian Charities Report) showing these entities (charities, as a subset of NFP private sector entities) draw funding diversely from government/grants, donations, goods and services, investments and other sources, which helps explain why some respondents favor stronger disaggregation and structured presentation to improve clarity over funding reliance and sustainability, while others caution against mechanical categorisation that could distort performance depiction for mission-driven models.

Effective date

15. Do you agree that NFP private sector entities and universities preparing Tier 1 GPFS should be required to apply AASB 18 and the modifications proposed to be made in the Exposure Draft for periods beginning on or after 1 January 2028? If not, which date do you consider that these entities should be required to apply AASB 18? Please explain your reasons.

We agree, and feedback indicates that overall acceptance of the proposed effective date is largely conditional, on timely, clear implementation guidance and stable final requirements.

NFP public sector entities, including governments

Statement of profit or loss presentation

16. Do you agree with the proposed paragraph Aus46.1(b) in AASB 18? Please explain your reasons.

Presentation of expenses

17. Do you agree with the proposed paragraph Aus78.1(b) in AASB 18? Please explain your reasons.

We generally agree with the proposal in AASB 18 as a pragmatic and proportionate response that balances conceptual alignment with AASB 18 against the operational realities and governance needs of the NFP public sector.

Respondents noted that public sector reporting frameworks are closely aligned with budget structures, Government Finance Statistics (GFS) reporting and established governance processes. In particular, councils and other public sector entities rely on a clear operating versus capital distinction, and on familiar expense classifications, to support rate-setting decisions, long-term financial sustainability assessments and public accountability. Mandating the AASB 18 categorisation framework and related expense presentation requirements without flexibility could therefore reduce clarity and distort how operating performance is perceived.

Feedback also highlighted practical implementation considerations. Many NFP public sector entities operate standardised financial systems and reporting templates embedded within state-based legislative and budgetary frameworks and supported by model financial statements issued by Treasury Departments or Local Government Departments. Requiring income and expenses reclassification into operating, investing and financing categories, or imposing a mandatory expense presentation approach, could create unnecessary system redesign costs and confuse preparers and users accustomed to established formats. In practice, where central agencies prescribe reporting formats, the policy choice may be exercised at the jurisdictional level rather than by individual entities, i.e. supporting consistent application while preserving flexibility in standard-setting.

From a governance and audit perspective, the optional approach is viewed as necessary to preserve meaningful depiction of financial results and comparability within jurisdictions. Feedback noted that councillors and oversight bodies often focus on service delivery, budget performance and sustainability measures (rather than IFRS-style categorisation logic), and that face-of-statement presentation directly influences decision-making and public accountability outcomes.

Concerns over treatment and presentation of capital grants

Specifically, feedback observed that classifying capital grants within an operating category under the AASB 18 model could inflate perceived operating performance and obscure assessments of recurring financial sustainability. Given the significance of capital funding in the public sector, we encourage the AASB to consider additional guidance on the presentation of capital grants to enhance clarity, reduce interpretive divergence and promote consistency in practice.

NFP-specific guidance

18. In respect to NFP public sector entities preparing Tier 1 GPFS, do you agree with the proposed paragraphs Aus9.1 and AusB5.1 in AASB 18 to require these entities to consider the common information needs of users of GPFS of NFP entities described in the Conceptual Framework for Financial Reporting? Please explain your reasons.

19. Do you agree with the proposed paragraph AusB80.1 in AASB 18 that NFP public sector entities preparing Tier 1 GPFS should consider what line items provide the most useful information to users of financial statements about the entity's "operations or main activities", which is broader than considering "the main components or drivers of the entity's profitability" required by AASB 18.B80? Please explain your reasons.

Respondents broadly agreed that users of public sector GPFS (e.g. councilors, oversight bodies and the community) primarily focus on service delivery, operational sustainability and stewardship of public resources, rather than profitability. The proposed amendments appropriately reframe AASB 18's user-needs concepts and line-item considerations in that context.

A suggestion raised was that the AASB consider providing additional clarifying guidance (or illustrative examples) to support consistent application in practice, particularly to help entities identify line items that best explain their operations or main activities, including the operating versus capital distinction and the effects of capital funding (such as capital grants, see our responses to questions 16-17 above) on how performance is interpreted.

Relief from disclosing information about management-defined performance measures (MPMs)

20. Do you agree with the proposed paragraph Aus117.1 in AASB 18? Please explain your reasons.

We agree with the proposal which provides NFP public sector entities with a policy choice not to identify or disclose MPMs. Respondents indicated that public sector entities already publish extensive performance and service delivery information outside GPFS through annual reports, budget reporting and other accountability channels. Requiring formal identification and reconciliation of MPMs within GPFS could create significant practical reporting and audit challenges (including assurance over completeness, definitional disputes and year-to-year changes), with limited incremental benefit to users.

International developments – International Public Sector Accounting Standarsd Board (IPSASB) project on *Presentation of Financial Statements*

We note, for context, that the IPSASB is currently progressing its Presentation of Financial Statements project (to replace IPSAS 1) and is considering how IFRS 18-style presentation and disclosure requirements should be adapted for the public sector. IPSASB Board papers indicate a preliminary view to categorise revenue and expenses in the statement of financial performance in alignment with IFRS 18 (AASB 18) and not to incorporate the IFRS 18 definition and disclosure requirements for MPMs.

While the IPSASB's consultation has not yet been formally issued, these ongoing deliberations provide relevant international context and reinforce the case for proportionate, decision-useful Australian settings for public sector entities, particularly in relation to the practicality and assurance challenges associated with MPMs completeness.

Cash flow classification – dividends received and interest paid and received

21. Do you agree with the proposed paragraphs Aus6.1 and Aus34D.1 in AASB 107 in respect to NFP public sector entities? Please explain your reasons.

Respondents supported this approach because it preserves long-standing GFS and budget-aligned classifications and the operating cash flow measures used to assess service delivery capacity and financial sustainability. Mandating reclassification under the revised AASB 107 could reduce comparability, confuse users, and drive unnecessary systems changes.

Many entities also have limited dividend receipts and, in some jurisdictions, constrained borrowing, reinforcing the case for retaining flexibility, with the proposed relief unlikely to have a significant sector-wide impact.

Operating cash flow reconciliation

22. Do you agree with the proposed paragraph Aus20.2 in AASB 107 and paragraph 16(b) in AASB 1054 in respect to NFP public sector entities? Please explain your reasons.

We agree that the amendments are appropriate consequential changes flowing from the broader relief granted to public sector entities. The proposal was seen as a necessary practical adjustment to ensure coherence between cash flow reconciliation requirements and the permitted presentation choices under AASB 18.

Aggregation and disaggregation

23. Do you agree that no modifications are needed for NFP public sector entities with respect to aggregation and disaggregation requirements set out in AASB 18? Please explain your reasons. If you consider modifications are needed, please describe the changes and explain why they are necessary.

Feedback from our outreach did not identify any public-sector-specific issues with the principles-based approach, and participants considered the requirements sufficiently flexible to support materiality and decision-useful reporting in a public sector context. Provided entities retain appropriate flexibility in overall presentation, the aggregation and disaggregation framework should operate effectively without undermining established budget-aligned reporting and comparability within jurisdictions.

Effective date

24. Do you agree that NFP public sector entities, including governments, should be required to apply AASB 18 and the modifications proposed to be made in the Exposure Draft for periods beginning on or after 1 January 2028? If not, which date do you consider these entities should be required to apply AASB 18?

We agree with the proposed effective date. While alignment of commencement dates across for-profit and NFP sectors is conceptually desirable, some smaller public sector NFP entities may benefit from additional lead time where reporting is not already aligned to mandated model statements.

Statement of changes in equity

25. Have you identified a public-sector-specific reason that would warrant an NFP public sector entity, or a government, to depart from the AASB 18 requirement to present a statement of changes in equity in their Tier 1 GPFS? If so, please explain.

We have not identified a compelling public-sector-specific reason to depart from AASB 18's requirement to present a statement of changes in equity. While some stakeholders noted it may be redundant where equity movements are limited, the prevailing view is that it remains a fundamental component of Tier 1 GPFS, supporting transparency and stewardship over public resources.

Whole of government and GGS financial statements

Line items to be presented in primary financial statements

26. Do you agree with the proposed paragraphs Aus23.1(b) and AusB8.1(b) in AASB 18 that a government should not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary – and therefore would be required to present all applicable line items and subtotals in accordance with AASB 1049? Please explain your reasons.

We agree with the proposal that governments present all line items and subtotals required under AASB 1049, rather than applying the AASB 18 "useful structured summary" approach. Governments operate within a prescribed fiscal

reporting framework, where AASB 1049 key fiscal aggregates (such as net operating balance and fiscal balance) are well understood by users, embedded in budget processes, aligned with GFS reporting and central to fiscal oversight. Allowing governments to omit line items or subtotals could undermine comparability with budget papers and reduce fiscal accountability; accordingly, requiring all applicable AASB 1049 presentations is appropriate and necessary.

Amendments to AASB 1049 arising from the FRC's PIR of AASB 1049

27. Do you agree with amending AASB 1049.14(f) to explain the effect of AASB 1049.13 on the application of the accounting policy choice provided in the proposed paragraph Aus34D.1 in AASB 107 regarding the classification of cash flows from interest paid and received and dividends received? Please explain your reasons.

We agree with the amendment. It is a technical clarification that improves internal consistency between standards, supports alignment with GFS and budget frameworks, and reduces interpretive uncertainty so governments can apply the intended classifications without conflicting requirements.

28. Do you agree with updating the references to Standards and terminology in AASB 1049.14(g) and 31(a)(ii)? Please explain your reasons.

Respondents agree with the updates and view them as uncontroversial housekeeping amendments that align AASB 1049 with current Standards and terminology, improving technical currency and internal consistency without raising public-sector-specific issues.

For-profit public sector entities

29. Do you consider it would be more important for the cash flow statements of for-profit public sector entities to be comparable with for-profit private sector entities or NFP public sector entities? Please explain why.

We received diverse feedback on whether cash flow statements of for-profit public sector entities should be more comparable with for-profit private sector entities or with NFP public sector entities. Respondents noted that the relative importance of comparability depends on the entity's nature and primary users.

Where the entity operates in a competitive or market-facing environment and is assessed against commercial performance, comparability with for-profit private sector peers is conceptually important and likely to provide more decision-useful information. However, given many for-profit public sector entities are consolidated into whole-of-government financial statements and operate within a broader public sector accountability framework, comparability with NFP public sector entities (including alignment with GFS- and budget-related classifications) may be more relevant in jurisdictions where consistency across the public sector reporting environment is a key objective.

Respondents also noted that public sector reporting is inherently subject to heightened public and parliamentary scrutiny, and that classification outcomes can influence how performance and funding decisions are interpreted. In that context, comparability settings that unintentionally create "headline" volatility or misinterpretation could have broader governance and political implications beyond purely technical comparability.

On balance, while we support alignment with NFP public sector entities, overall, the mixed feedback we received highlights an underlying tension between market-based comparability and fiscal reporting consistency, suggesting the AASB may need to consider whether a differentiated approach should be applied depending on the operating context.

30. Please explain how important it is for for-profit public sector entities to have consistent classification of dividend and interest transactions between the income statement and the cash flow statement (noting that the AASB has decided that these entities categorise income and expenses in accordance with AASB 18)?

Consistency between income statement categorisation and cash flow classification of dividends and interest is desirable as it improves internal coherence and reduces user confusion.

However, for for-profit public sector entities that are consolidated into whole-of-government financial statements applying different classification conventions, strict alignment at the entity level may increase consolidation adjustments and create inconsistencies within the broader public sector reporting framework.

31. Assuming the AASB's proposals are implemented and dividends received and interest paid and received will continue to be classified as operating cash flows in the whole of government and GGS financial statements, please outline the cost and effort that would be required to adjust different cash flow classifications of for-profit public sector entities to facilitate consolidation into the whole of government financial statements and how they compare with the benefits of complying with the revised requirements of AASB 107?

As stated in our response to Question 30, the consolidation issue is a key practical consideration. If for-profit public sector entities apply the revised AASB 107 classification for dividends received and interest paid/received, but whole of government and GGS statements retain operating classification, consolidation adjustments would be required each period through mapping rules, reclassification journals and additional reconciliations/controls.

This is likely manageable where consolidation systems are automated (via configuration changes), but would create recurring workload, documentation and audit effort where processes are manual or template based.

In addition, while entity-level compliance improves consistency with AASB 18 and comparability with for-profit private sector peers, the benefits may be limited in the public sector context if classifications are reversed on consolidation, potentially outweighing the marginal comparability gains.

General matters for comment

32. Have the AASB For-Profit Entity Standard-Setting Framework and the AASB Not-for-Profit Entity Standard-Setting Framework been applied appropriately in developing the proposals in this Exposure Draft?

Yes, we believe the AASB For-Profit Entity Standard-Setting Framework and the AASB Not-for-Profit Entity Standard-setting Framework have been applied appropriately in developing the proposals in ED 338. As an observation, we do however note that ED 338 highlights some of the challenges associated with the transaction-neutral approach that underpins the AASB's standard-setting frameworks.

33. Are there any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals?

Our responses to the above questions highlight many of the regulatory or other challenges that may arise in the implementation of the proposals in ED 338.

Specifically, as noted in our responses to Questions 14 and 16–17, implementation and potential inconsistencies will arise from jurisdictional reporting mandates for NFP public sector entities (e.g., Treasury/Local Government model financial statements and budget/GFS alignment) and, for universities, alignment with Department of Education financial reporting guidance. These frameworks may affect consistency across sectors and the extent of system and template changes required. Public sector stakeholders have also called on the AASB to commence its project to review the public sector financial reporting framework to assess whether the accounting framework for the Australian public sector remains fit for purpose.

Similarly, for NFP private sector entities, a 'one size fits all' approach to applying the AASB 18 requirements may give rise to both costs/benefits and comparability challenges. As recommended above, a post-implementation review is important to assess the success, or otherwise, of applying the AASB 18 requirements to the NFP private sector.

Also, as noted in the cover letter, whilst our comments in this submission relate to Tier 1 entities that are within the scope of ED 338, we would also like to highlight that the comments we make in this submission in respect of NFP public sector entities and NFP private sector entities are also relevant to the Tier 2 entities for these two sectors.

34. Do the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?

As explained in our response to Question 20, a key assurance challenge relates to completeness and auditability of MPM disclosures for NFP public sector entities, which supports the proposed policy choice not to identify/disclose MPMs. For NFP sector entities and universities (Questions 13–14), stakeholder comments suggest judgement-heavy areas (e.g., "operations or main activities" and sector consistency) may increase audit focus and documentation requirements, but these could be manageable with clearer guidance and practical examples.

35. Overall, would the proposals result in financial statements that would be useful to users?

36. Are the proposals in the best interests of the Australian economy?

Overall, we consider the proposals are likely to result in more useful financial statements and be in the best interests of the Australian economy, particularly for superannuation entities and NFP public sector entities, where the approach preserves well-understood sector reporting formats while applying AASB 18 principles proportionately.

However, as noted above, we received mixed views on Tier 1 NFP private sector entities, with concerns raised stakeholders representing universities about judgement, classification outcomes and sector comparability. Further clarification was also sought for FP public sector entities on comparability and consolidation impacts.

These areas may warrant further consideration and/or additional guidance by the AASB to ensure implementation remains proportionate and decision-useful, and to support financial statements that are useful to users and in the best interests of the Australian economy.

37. Unless already provided in response to the specific matters for comment above, what are the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

As outlined in our responses above (particularly Questions 16–17, 20–22, and 29–31), the proposals are expected to deliver net benefits through improved clarity, enhanced transparency and consistency while limiting incremental costs via targeted relief, with implementation costs largely relating to system or manual template updates, mapping, training and additional documentation.